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January 24, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Investment in Vista Foundation Fund IV, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Vista Foundation Fund IV, L.P. (the “Fund”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Stable and experienced partnership: The 3 dedicated principals bring significant deal experience having worked in various private equity and software roles and deep operational experience, having worked at various Vista portfolio companies. The Foundation Team also includes six dedicated Vice Presidents with over 60 years of combined software investing experience.

Compelling market opportunity: The enterprise software sector is well diversified and spans most industries. The sector is typically characterized by stable and secure revenue streams along with higher margins.

Operational value-add and Vista Consulting Group (“VCG”): The VCG team works in conjunction with Vista investment professionals and portfolio company management to help current and newly acquired businesses strengthen their operations through the implementation of standardized, repeatable and proven processes and methodologies known as Vista Best Practices (“VBP”). A key competitive advantage of Vista’s Fund strategy has been the Firm’s ability to effect substantial operating improvements in its companies through the implementation of VBP’s

Environmental, Social and Governance (“ESG”) Policy: Vista adopted its first ESG policy in 2011 and has historically considered ESG issues as best business practices. Vista has determined that some of the significant ESG issues faced by their companies involve data privacy and information security, ethics and compliance, anti-bribery and corruption, customer and employee relations, diversity and inclusion and community engagement, among others. Before every deal and add-on acquisition, VCG subject-matter experts conduct an in-depth review of the company’s technology, cybersecurity, and data privacy practices. Additionally, Vista engages a law firm to

assess potential ESG risks and opportunities. Post-acquisition, Vista monitors their companies' ESG performance and progress, both during the value creation planning process and throughout the life of each investment. Vista regularly revisits and updates its ESG policy to ensure that the policy evolves with changes in industry demands and regulations.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, TorreyCove Capital Partners, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the Fund has not engaged a third-party solicitor ("placement agent").

Staff will continue its due diligence and will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. Vista Foundation Fund IV, L.P. is considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1. Pursuant to N.J.A.C. 17:16-90.4(a)1, the aggregate market value of private equity investments shall not exceed 12% of the combined assets of all of the Pension and Annuity Funds. As of the close of business on January 23, 2020, the aggregate market value of private equity investments is 10.75% of the combined assets of all the Pension and Annuity Funds excluding the Police and Fire Mortgage assets.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on January 15, 2020. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's January 29, 2020 meeting.

Attachment

Fund Name: Vista Foundation Fund IV, L.P.

January 24, 2020

Contact Info: John Warnken-Brill, 4 Embarcadero Center, 20th Floor, San Francisco, CA 94111

Fund Details:

Firm AUM (\$bil.):	\$56.6 billion	Key Investment Professionals Robert Smith – (Founder, Chairman and CEO) Prior to founding Vista in 2000, Mr. Smith worked for Goldman Sachs & Co. in tech investment banking. Brian Sheth – (Co-Founder and President) Prior to joining Vista, Mr. Sheth worked for Bain Capital, Goldman Sachs & Co. and Deutsche Morgan & Grenfell Group. Rob Rogers – (Principal and Co-Head of Foundation Funds) Mr. Rogers sits on the Investment Committee and is Co-Head of the Vista Foundation Funds. Prior to joining Vista, Mr. Rogers worked for Integra LifeSciences and Goldman Sachs & Co. Marc Teillon – (Principal and Co-Head of Foundation Funds) Mr. Teillon is Co-Head of the Vista Foundation Funds and a member of the Funds' Investment Committee. He was previously a member of the Vista Flagship Funds team. Prior to joining Vista, Mr. Teillon worked for Citi's Investment Banking division. Patrick Severson – (Dedicated Principal) Mr. Severson joined the firm in 2013 from Warburg Pincus. Prior to Warburg Pincus, Severson was a consultant at Booz-Allen & Hamilton and Price Waterhouse.
Strategy:	Buyout	
Year Founded:	2000	
Headquarters:	Austin, TX	
GP Commitment:	2%	

Investment Summary	Existing and Prior Funds			
Vista seeks to deliver differentiated capital to enterprise software, data and technology-enabled companies, where Vista can deploy levers for value creation to drive an optimized mix of organic and strategic growth, accelerated and supported by operational excellence. Vista funds focus on the mid cap segment of the enterprise software market.	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 6/30/2019</i>
	VFF I	2009	Buyout	39.1% Net IRR; 2.94x Net TVPI; 2.80x DPI
	VFF II	2013	Buyout	17.0% Net IRR; 1.74x Net TVPI; 0.72x DPI
	VFF III	2016	Buyout	9.1% Net IRR; 1.13x Net TVPI; 0.00x DPI
	Source of Returns= TorreyCove			
	IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In			

Vehicle Information:

Inception:	2020	Auditor:	Deloitte LLP
Fund Size:	\$3.25 billion; \$4 billion (hard cap)	Legal Counsel:	Kirkland & Ellis LLP
Management Fee:	2.0% of capital commitments during investment period 2.0% of the cost basis of investments, reduced by dispositions and permanent write-downs		
Carry:	20.0% until cumulative distributions represent a 2.5x multiple 25% if cumulative distributions equal 2.5x; If the cumulative distributions represent a multiple greater than 2.5x but less than 3.0x, the percentage equal to the product of such multiple (rounded to the nearest tenth) multiplied by 10 30.0% if such cumulative distributions represent a multiple of 3x or greater		
Hurdle Rate:	8%		
Additional Expenses:	100% management fee offset		

NJ AIP Program			
Recommended Allocation (\$mil):	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	3.08%; 2.50% (hard cap)	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	NA
		Compliance w/ SIC Political Contribution Reg:	Yes

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.